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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

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A ROUGH HALF-YEAR

The first six months of 2022 saw the S&P 500 decline 23.6% from its all-time high at 4,796.56 on January 3 to a closing low of 3,666.77 on June 16. The index finished its worst first half since 1970 at 3,785.38 on June 30.

More noteworthy even than the extent of the decline was its gathering violence: in mid-June, the market ran off a streak of five out of seven trading days on which 90% of S&P 500 component stocks closed lower. This is one-sided negativity on a historic scale.

Let's stop right there. Because regardless of any and all other points I wish to make in this report to you, the most urgent should already be clear. Simply stated, the best way to completely destroy any chance for lifetime investment success has historically been to sell one's quality portfolio into a bear market.

But to sell when investor sentiment is sufficiently negative to drive 90% of S&P stocks lower on five out of seven trading days—***to sell, that is, when everyone else is selling***—must strike us as the height of long-term folly.

With that clearly on record, let me attempt to make some kind of sense out of what's going on here. To do so, I need to take you back to the bottom of the Great Panic on March 9, 2009. From that panic-driven trough, the S&P 500 (with dividends reinvested) compounded at 17.6% annually for the next 12 years, through the end of 2021. At its peak this past January 3, the index was up seven times from its low. This was one of the greatest runs in the whole history of U.S. equities.

Moreover, the index's compound return over the last three of those years—2019 through 2021, encompassing the worst of the Covid-19 plague—shot up to 24% annually.

But when inflation soared late last year, it became evident that equities' jaw-dropping advance over those three years had been fueled to some important extent by an excess of fiscal and monetary stimulus, mounted to offset the economic devastation of the pandemic. In one sentence: The Federal Reserve created far too much money and then left it sloshing around there far too long.

And since inflation, as Milton Friedman (Nobel Prize-winning economist, Univ of Chicago) taught us, is always and everywhere a monetary phenomenon, we investors now find ourselves having to give back some of the extraordinary 2009-2021 market gains, as the Fed moves belatedly to sop up that excess liquidity by raising interest rates and shrinking its balance sheet.

Yes, the war in Eastern Europe and supply chain woes of various kinds have exacerbated inflation, but in my judgment, they're irritants: Monetary policy (seasoned as well with a bit too much fiscal stimulus) got us into this mess, and monetary policy must now get us out. The fear, of course, is that the Fed will overtighten, putting the economy into recession.

As your financial advisors, our position in all our discussions with you has been, and continues to be: So be it. If an economic slowdown over a few calendar quarters is what it takes to tame inflation, it would be by far the

lesser of two evils. ***Long term, high inflation is a disease that devastates not just investment portfolios but the global economy. It must be destroyed.***

With regard to our investment policy, nothing has changed, because nothing ever changes. That is: We are long-term, goal-focused, plan-driven investors. We own diversified portfolios of asset classes with strong historical evidence of giving you the ability to capture the global capital market rate of return. We act continuously on our financial and investment plan: We do not react to current events, no matter how distressing they may be.

After 30 months of chaos—the pandemic in its several variants, the election that would not end, roaring inflation (most painfully in stupefying gas price increases), the supply chain mess, war in Europe, and so on—we're all understandably exhausted. (And I most certainly do mean we.) That's when the impulse to capitulate—to get to the illusory "safety" of cash—becomes strongest. So that's when the impulse must be resisted most strongly. And that's our job.

This too shall pass. We're here to talk all this through with you at any time. And as always, to our clients: Thank you—it is a privilege to serve you.

—Allen Giese

SOCIAL MEDIA SECURITY

A hot topic of conversation has been the many threats we face in cybersecurity. Several of us have experienced or know someone who has experienced their social media accounts (Facebook, Twitter, TikTok, etc.) being hacked.

If this happens to you, it is important to act in a timely manner to prevent further damage to your personal information.

Be on the lookout. Signs your account has been hacked include:

- Notification of login or password change that you did not initiate
- Posting of pictures or messages to friends that you did not post
- Inability to log in to your account
- Random/spammy friend requests
- Messages that seem untrue or highly unlikely that include links to click on

If you have been hacked:

- Immediately change your password and force the logging out of all locations on that social media. For example, on Facebook via the phone app, go to Settings > Password & Security > "Where you're logged in" to see all devices logged in to your account.

- If you are unable to log in, hit "forgot password" and follow directions to reset your password.
- If the first two options are unsuccessful, report that your account has been compromised directly to the social media website or app.

After you have safely logged back in:

- Create a new password and log out of any unknown devices, as described above.
- Look for new posts, new friends, and new followed pages you don't recognize, and unfollow them.
- If you use a similar or the same password on other websites, change those passwords as well.
- If your computer has anti-virus software, run it and clean any potential threats that may have gotten into your device.
- If you continue to receive spam emails or issues within your device, it would be wise to get your device cleaned.

— Charles Thomas

DOES IT MAKE FINANCIAL SENSE TO BUY AN ELECTRIC CAR?

With the price of gasoline skyrocketing, you might wonder if it's time to buy an electric car. Carmakers from BMW to Subaru are releasing new models in 2022, so you have a larger selection than ever to choose from. But does buying an electric vehicle make financial sense for you? Here are points to consider:

Purchase Price

Electric cars are priced higher than their conventional counterparts. This price difference is expected to shrink with time, but right now, there is still a gap of thousands of dollars.

However, the federal tax credit for buying electric vehicles can help reduce that gap by up to $7,500. (Note: EVs from Tesla and General Motors are no longer eligible for the deduction.) You may also be able to take advantage of state, municipal, and utility incentives. Try entering your zip code at the PlugStar website (https://plugstar.zappyride.com/tools/incentives) to find out the incentives you are eligible for.

On a related note, your car insurance policy will probably cost more with an electric vehicle. Bankrate attributes this to the higher purchase price and higher repair costs.[1]

Fuel

It almost seems unfair to compare gas and electric costs when gas prices are sky-high. We don't know how long the run-up in gas prices will last or how much they will come back down, but it's also true that electricity costs have increased too.

A CNBC analysis[2] in March 2022 looked at national averages between February 2019 and February 2022. It was cheaper to charge an electric vehicle than fill up a gas-powered car in each month of that period.

You can use a standard 120-volt outlet to charge your EV, but the process will be slow. You can also buy a 240-volt charging station and have an electrician install it. The charger can cost $500 -$800, and the installation can go for $800-$2,000, according to Qmerit.[3] This will offset your fuel savings, so you will want to assess whether you plan to keep the car long enough to make the purchase worthwhile.

Maintenance

Kelley Blue Book says that repair costs are higher for EVs because of their newness, and predicts expenses will come down over time.[4] However, EVs are already cheaper to maintain because their engine has a single-speed transmission and fewer moving parts. You won't have to worry about oil changes, transmission fluid flushes, new spark plugs, and a host of other regular service needs you may be used to.

Rather, your service visits will generally focus on tire rotation, brake pad checks, windshield wiper replacement, etc. This means fewer dollars spent on maintenance.

You may want to budget for battery replacement. Consumer Reports says that EV batteries have around 2% of range loss per year:

> *"EV batteries can be serviced and individual cells inside the battery can be replaced if they go bad. But there's the risk after many years of service and several hundred thousand miles that the entire battery pack may need to be replaced if it has degraded too much. The cost can be*

[1] https://www.bankrate.com/insurance/car/electric-car-insurance/
[2] https://www.cnbc.com/2022/03/19/cost-of-charging-ev-vs-gas-prices.html
[3] https://qmerit.com/ev-charging-faq/
[4] https://www.kbb.com/car-news/study-evs-cost-more-to-repair-less-to-maintain/

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between $5,000 and $15,000 and is akin to an engine or transmission replacement in a gas car."[5]

EV batteries generally have a warranty for at least eight years or 100,000 miles.

Lifestyle Considerations

Lifestyle often plays as crucial a role in purchases as the financial "cents." When it comes to electric cars, these vehicles retain a certain cachet of ownership, as *Forbes* points out.[6]

They also appeal to the environmentally minded. The same *Forbes* article reports findings by the Union of Concerned Scientists that EVs contribute less pollution than their gas-powered counterparts in all 50 states.

Another factor to consider is the driving range of electric vehicles, generally between 200 and 300 miles before you need a charge. You may opt for a conventional car if you often drive long distances. If your usual trips are less than 200 miles (like around the city), an EV may be a good bet.

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[5] https://www.consumerreports.org/hybrids-evs/what-happens-to-the-old-batteries-in-electric-cars-a1091429417/

[6] https://www.forbes.com/sites/jimgorzelany/2022/01/21/why-2022-could-be-the-year-you-buy-an-electric-vehicle/?sh=3677ffef2a01